

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-10 ISO-00 AGRE-00 DOE-15 SOE-02
SP-02 ICA-11 AID-05 EB-08 NSC-05 SS-15 STR-07
OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-10
NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 INT-05 PA-01
DODE-00 H-01 L-03 CTME-00 ITC-01 AF-10 ARA-10
NEA-10 HA-05 IO-13 /177 W
-----005821 060208Z /70

R 060135Z APR 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 6820
INFO USLO PEKING
AMCONSUL HONG KONG
AMEMBASSY TAIPEI
AMEMBASSY MOSCOW

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E.O. 11652: NA
TAGS: EEWT, ETRD, JA, CA
SUBJECT: SINO-JAPANESE LONG TERM TRADE AGREEMENT

REF: (A) STATE 70933 (NOTAL), (B) TOKYO 3490,
(C) PEKING 846(NOTAL)

1. SUMMARY: IN MEETING WITH EMBASSY OFFICER, MOFA CHINA
DIVISION OFFICIALS SAID ECONOMIC MISSION CURRENTLY VISITING
JAPAN WAS TRYING TO SEE HOW FAR THEY COULD PUSH JAPAN ON
EXPORT PRICES AND FINANCING. ALTHOUGH PRESS REPORTS
VARIOUS DISCUSSIONS OF FINANCING TERMS NOTHING HAD BEEN
DECIDED. MOFA ASSURED US THAT FINANCING WOULD FOLLOW
TERMS OF EXPORT CREDIT ARRANGEMENT. THEY EXPECT FINAL
DECISION ON FINANCING WILL BE MADE WHEN BANK OF CHINA
DELEGATION VISITS JAPAN IN MAY AND THINK PACKAGE WILL
INCLUDE SOME FORM OF EXIMBANK DEPOSITS WITH BANK OF CHINA.
END SUMMARY.

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2. EMBASSY OFFICER MET RECENTLY WITH OFFICIALS OF THE CHINA
DIVISION OF THE MINISTRY OF FOREIGN AFFAIRS (MOFA) TO DIS-
CUSS THE 19 MEMBER ECONOMIC MISSION LED BY LIN HUA-JIA,
VICE CHAIRMAN OF THE SHANGHAI MUNICIPAL REVOLUTIONARY
COMMITTEE WHICH ARRIVED IN JAPAN ON MARCH 28 FOR A 25-DAY
STAY.

3. PRESS REPORTS ON THE MISSION'S DISCUSSIONS WITH VARIOUS GOVERNMENT AGENCIES, TRADING AND INDUSTRIAL COMPANIES CENTER AROUND THE PROBLEM OF FINANCING JAPAN'S EXPORTS TO CHINA AND VARIOUS ALTERNATIVES BEING CONSIDERED.

4. ALL REPORTS STRESS THAT THE MAIN PROBLEM IS THAT THE CHINESE ARE DEMANDING INTEREST RATES LOWER THAN 7 PERCENT WHILE THE JAPANESE GOVERNMENT INSISTS THAT ANY JAPAN EXIM-BANK LOANS MUST BE AT LEAST THE 7.25 PERCENT AGREED UPON IN THE EXPORT CREDIT ARRANGEMENT.

5. THE CHINESE REPORTEDLY ARE REPEATING THEIR PREVIOUS THREATS TO TURN TO EUROPEAN SUPPLIERS, ESPECIALLY FRANCE, IF THE JAPANESE DO NOT GIVE THEM THE TERMS THEY WANT. TO THIS THEY ADD THAT THE APPRECIATION OF THE YEN IS MAKING JAPANESE PRODUCTS NON-COMPETITIVE WITH EUROPEAN PRODUCTS.

6. PRESS REPORTS DIFFER SLIGHTLY ON THE TYPE OF FINANCING PROPOSED BY THE JAPANESE SIDE BUT IT IS GENERALLY REPORTED TO CONSIST OF THREE PARTS: (1) JAPANESE EXPORTERS WOULD PAY 0.25 PERCENT OF THE 7.25 PERCENT INTEREST CHARGE ON EXIMBANK LOANS; (2) JAPANESE COMMERCIAL BANKS WOULD INCREASE THEIR YEN DEPOSITS WITH THE BANK OF CHINA, AND (3) THE EXIMBANK WOULD PLACE DEPOSITS WITH THE BANK OF CHINA. PRESS REPORTS SAY CHINA IS NOT HAPPY WITH THESE PROPOSALS, LIMITED OFFICIAL USE

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PREFERRING DIRECT LOW INTEREST LOANS FROM THE EXIMBANK.

7. THE PRESS REPORT OF THE DELEGATION'S MEETING WITH THE FINANCE MINISTRY SAYS JAPAN TOLD THE CHINESE DELEGATION THAT: (1) JAPAN MUST FOLLOW THE GUIDELINES ON OFFICIAL FINANCING, (2) EXPORTERS CAN ADJUST THEIR PRICE TO PRODUCE A LOWER REAL RATE OF INTEREST, AND (3) WITH THE RECENT REDUCTION IN THE DISCOUNT RATE TO 3.5 PERCENT, THE PRIME RATE FOR LONG TERM LOANS HAS BEEN REDUCED TO 7.1 PERCENT SO EXPORTERS COULD MEET CHINA'S REQUEST FOR LOW INTEREST LOANS USING ONLY COMMERCIAL LOANS.

8. WHEN TALKING TO THE EMBASSY OFFICER, THE MOFA OFFICIALS COULD NOT CONFIRM THESE PRESS REPORTS BUT SAID ANY GOVERNMENT FINANCING WOULD CONFORM TO THE EXPORT CREDIT ARRANGEMENT. THEY DISCOUNTED THE POSSIBILITY THAT CHINA WOULD TURN TO EUROPEAN SOURCES BECAUSE WHEN TRANSPORTATION COSTS ARE ADDED, JAPANESE PRODUCTS ARE STILL COMPETITIVE. THERE MAY HAVE TO BE SOME PRICE CUTS, HOWEVER, BECAUSE OF EUROPEAN COMPETITION. THE CHINESE ARE WELL AWARE OF THE LOW OPERATING LEVELS OF JAPANESE INDUSTRIES, ACCORDING TO THE MOFA, AND THEY FEEL THE DELEGATION IS ON A FISHING EX-

PEDITION TO SEE HOW FAR THEY CAN PRESSURE THE JAPANESE ON PRICES AND FINANCING TERMS. ALTHOUGH THE DELEGATION MAY SIGN SOME CONTRACTS DURING THE COURSE OF THEIR VISIT, THE MOFA DOES NOT EXPECT ANY MAJOR PURCHASES TO BE ANNOUNCED.

9. MOFA OFFICIALS DID SAY THAT MR. INAYAMA, HEAD OF THE JAPAN-CHINA ECONOMIC ASSOCIATION HAS BEEN PUTTING HEAVY PRESSURE ON THE JAPAN EXIMBANK TO WORK OUT SOME WAY TO ACCOMMODATE CHINA'S DEMAND FOR LOW COST FINANCING. THEY EXPECT FINANCING TERMS WILL BE FORMALIZED WHEN THE BANK OF CHINA DELEGATION VISITS TOKYO IN MAY AND THINK IT WILL INCLUDE SOME FORM OF DEPOSIT OF EXIMBANK FUNDS WITH THE BANK OF CHINA AT LOW INTEREST. THEY PLANNED TO MEET WITH EXIMBANK OFFICIALS AND THE MINISTRY OF FINANCE AFTER THE DELETED OFFICIAL USE

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GATION LEAVES ON APRIL 21 TO DISCUSS THE FINANCING PROBLEM.

10. IN THE COURSE OF THE CONVERSATION, THE EMBASSY EXPRESSED OUR APPRECIATION TO THE JAPANESE FOR THEIR INSISTENCE ON FOLLOWING THE ARRANGEMENT AND OUR HOPE THAT ANY SOLUTION WORKED OUT WITH CHINA WOULD MAINTAIN THE TERMS OF THE ARRANGEMENT. MANSFIELD

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